

## Message Text

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ACTION SS-14

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 7403

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TAGS: EFIN, UK

SUBJECT: SITUATION REPORT, NOVEMBER 8

REF: A. STATE 267L68 B. LONDON 17798

1. OUTLOOK FOR CLOTURE AND CONTENTIOUS BILLS - IT  
APPEARS PROBABLE THE GOVERNMENT WILL SUCCEED IN ITS  
NOVEMBER 8 EFFORT TO INVOKE CLOTURE ON FIVE CONTENTIOUS  
BILLS WHICH HAVE BEEN OR WILL SHORTLY BE RETURNED TO  
COMMONS FROM THE HOUSE OF LORDS. THE PRESS REPORTS  
THAT THE WELSH NATIONALIST PLAID CYMRU (3 SEATS) WILL  
SUPPORT CLOTURE FOR TWO OF THE BILLS, ABSTAIN ON TWO  
OTHERS AND OPPOSE ONLY THE BILL NATIONALIZING THE SHIP-  
BUILDING AND AIRCRAFT INDUSTRIES. WHILE THE OTHER OPPO-  
SITION PARTIES WILL REPORTEDLY OPPOSE CLOTURE ON ALL  
OF THESE BILLS, THE GOVERNMENT SHOULD BE ABLE TO PRE-  
VAIL, EVEN ON THE NATIONALIZATION MEASURE, IF THE  
WHIPS DO THEIR JOB WELL. SHOULD THERE BE A TIE VOTE,  
PRECEDENT WOULD REQUIRE THE SPEAKER TO CAST THE DE-  
CIDING VOTE FOR THE GOVERNMENT. THE OUTLOOK FOR THE  
FIVE BILLS THEMSELVES IS MORE COMPLICATED. EACH HAS  
BEEN SUBJECTED TO NUMEROUS AMENDMENTS IN THE LORDS,  
AND THE POSITIONS OF THE OPPOSITION PARTIES WILL VARY

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FROM BILL TO BILL AND FROM AMENDMENT TO AMENDMENT ON

EACH BILL. WE ANTICIPATE THAT THE GOVERNMENT WILL WIN MOST, BUT NOT ALL, OF THE DIVISIONS ON SPECIFIC AMENDMENTS (THE GOVERNMENT IS EXPECTED TO ACCEPT SOME OF THE NON-SUBSTANTIVE AMENDMENTS.). THE NATIONALIZATION AND DOCK WORK REGULATION BILLS APPEAR TO BE THE MOST VULNERABLE, BUT WE EXPECT THAT THE FORMER, AT LEAST, WILL ULTIMATELY BE PASSED IN MUCH ITS ORIGINAL FORM. IT IS NOT CLEAR HOW THESE EVENTS WILL AFFECT FOREIGN EXCHANGE MARKETS.

2. PUBLIC SECTOR BORROWING REQUIREMENT - CHANCELLOR OF THE EXCHEQUER HEALEY, IN WEEKEND INTERVIEWS WITH LE MONDE AND THE BBC, AGREED THAT THE L977/78 PUBLIC SECTOR BORROWING REQUIREMENT (PSBR) IS LIKELY TO BE MORE THAN THE 9 BILLION POUND JULY ESTIMATE. HE POINTED OUT, HOWEVER, THAT THERE WERE "STILL FIVE MONTHS TO GO BEFORE THE NEXT FINANCIAL YEAR EVEN BEGINS. THERE IS A GREAT DEAL OF TIME -- IF THE GOVERNMENT FEELS THE PUBLIC SECTOR BORROWING REQUIREMENT OUGHT TO BE LOWER THAN IT IS LIKELY TO BE -- TO TAKE STEPS TO REDUCE IT". HE ADDED THAT THERE WAS "A REAL POSSIBILITY THAT WE SHALL HAVE TO TAKE SOME FURTHER ACTION WHICH WILL BE PAINFUL AND DIFFICULT."

THE FINANCIAL TIMES HAD REPORTED ON SATURDAY, NOVEMBER 6 THAT THE PSBR WOULD BE 2 BILLION POUNDS HIGHER IN 1977/78 THAN ESTIMATED AS A RESULT OF "LOWER GROWTH, HIGHER INFLATION RATES, INCREASED INTEREST RATES AND HIGHER UNEMPLOYMENT" THAN PREVIOUSLY FORECAST. THE CHANCELLOR COMMENTED THAT THE 2 BILLION POUND ESTIMATE WAS "ENTIRELY SPECULATIVE".

THE CHANCELLOR IS ALSO REPORTED TO HAVE SAID THAT THERE IS VIRTUALLY NO CHANCE OF OBTAINING AN INFLATION RATE AS LOW AS 7 PERCENT BY THE END OF NEXT YEAR -- THE TARGET ANNOUNCED LAST APRIL -- BECAUSE OF SHARP INCREASES IN MATERIAL AND IN FOOD PRICES AND OF STERLING'S DEPRECIATION THIS YEAR.

3. THE FINANCIAL TIMES REPORTS THAT THE DEPARTMENT OF LIMITED OFFICIAL USE

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ENVIRONMENT HAS SENT A CONFIDENTIAL MEMORANDUM TO LOCAL GOVERNMENT UNIONS AND MANAGEMENT OUTLINING WHERE CUTS COULD BE MADE TO BRING LOCAL AUTHORITY SPENDING BACK IN LINE WITH PUBLIC EXPENDITURE TARGETS SET IN FEBRUARY. THE CUTS WOULD INVOLVE INTER ALIA, REDUCTION IN EMPLOYMENT IN EDUCATION, FIRE AND TRAFFIC SERVICES, AND TRANSPORTATION, INCREASED BUS FARES DUE TO REDUCED PUBLIC SUPPORT, AND ABANDONMENT OF CERTAIN SCHOOL

BUILDING PROGRAMS.

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4. THE DAILY TELEGRAPH REPORTS THAT THE U.K. IS SEEKING, AT THE MONTHLY MEETING OF CENTRAL BANK GOVERNORS IN BASLE THAT STARTS TODAY, TO EXTEND THE REPAYMENT DATE OF \$1.6 BILLION OF THE \$5.3 BILLION STANDBY CREDIT FOR TWO MONTHS. THE DELAYED PAYMENT WOULD ALLOW TIME TO COMPLETE THE PROCEDURES FOR OBTAINING THE \$3.9 BILLION IMF CREDIT, AND SO AVOID A PERIOD OF TIME IN WHICH U.K. RESERVES WOULD BE EXTREMELY LOW.

5. IN THE NOVEMBER 7 SUNDAY TIMES, MALCOLM CRAWFORD REITERATED HIS VIEW THAT THE IMF AND THE U.S. TREASURY BELIEVE IN THE "EFFECTIVENESS OF DEVALUATION IN CORRECTING EXTERNAL DEFICITS", BUT HAS MODIFIED HIS EXPECTATION OF AN EXPLICIT EXCHANGE RATE TARGET EMERGING FROM THE U.K. APPROACH TO THE IMF. IN PARTICULAR, HE STATES:

"THE EXCHANGE RATE WILL HAVE TO BE DISCUSSED BETWEEN THE IMF MISSION AND OUR TREASURY, IF ONLY BECAUSE OF THE DIVERGENT VIEWS OVER INTERVENTION POLICY. BUT NO EXCHANGE RATE WILL NOW BE MENTIONED IN THE LETTER OF INTENT.

THE GOVERNMENT HAS FINALLY MADE ITS MIND UP ABOUT EXCHANGE RATE POLICY, AND ITS DECISION IS: NO FURTHER LIMITED OFFICIAL USE

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DEVALUATION. CALLAGHAN, PERHAPS EVEN MORE THAN HEALEY, HAS REACTED STRONGLY TO THE EVENTS OF THE PAST FORTNIGHT, AND HAS DECIDED THAT HAROLD LEVER WAS RIGHT AND THAT THE POUND MUST BE SUPPORTED STRONGLY. MOVES TOWARDS A DEAL OVER SOME OF THE SHAKIER ELEMENTS IN THE STERLING BALANCES HAVE BEEN ACCELERATED. THERE WILL BE EVEN MORE CONCENTRATED EFFORT TO TRIM THE PUBLIC SECTOR'S BORROWING REQUIREMENT NEXT YEAR -- ESPECIALLY NOW THAT IT IS SHAPING UP MUCH BIGGER THAN THE 9 BILLION POUNDS FORECAST IN JULY."

6. LABOR DEVELOPMENTS - SUPPORT FOR A MORE FLEXIBLE PAY POLICY IN THE NEXZQROUND, BEGINNING AUGUST 1, 1977, HAS BEEN VOICED BY THE LONDON CHAMBER OF COMMERCE. THE CHAMBER SAYS INCREASED INCENTIVES TO MANAGERS AND SKILLED WORKERS ARE NECESSARY IF INDUSTRIAL CONFIDENCE IS TO BE RESTORED. (INCREASINGLY, AS PUBLIC DEBATE ON THE NEXT PAY ROUND BEGINS, BOTH UNIONS AND EMPLOYERS ARE INDICATING THAT ROUND THREE NEEDS TO BE LESS RIGID THAN ROUND ONE OR TWO.)

7. UNEMPLOYED EXECUTIVES ROSE BY 21,000 IN SEPTEMBER TO MAKE THE TOTAL OF UNEMPLOYED EXECUTIVE AND PROFESSIONAL STAFF REACH A RECORD LEVEL OF OVER 70,000; A FURTHER INCREASE TO 80,000 IN JANUARY IS PREDICTED.

8. FOREIGN EXCHANGE AND FINANCIAL MARKETS - THE POUND ROSE IN EARLY FRIDAY TRADING BUT SETTLED BACK TO CLOSE AT 1.6280, UP 0.20 CENTS ON THE DAY. THE TRADE WEIGHTED DEPRECIATION SINCE THE WASHINGTON CURRENCY AGREEMENT REMAINED UNCHANGED AT 45.9 PERCENT. THE POUND OPENED SLIGHTLY WEAKER ON MONDAY MORNING, STANDING NEAR 1.62 IN EARLY TRADING.

THE GILT MARKET WAS STRONG IN THE FACE OF ANTICIPATED NEW TAP ISSUES WHICH WERE IN FACT ANNOUNCED AT 3:30 GMT FRIDAY NOVEMBER 5. THE SHORT TAP WILL BE 600 MILLION POUNDS AT 14 PERCENT, MATURING 1982 TO BE ISSUED AT 98-1/4, WHILE THE LONG WILL BE 600 MILLION POUNDS AT 15-1/4 PERCENT MATURING 1996 TO BE ISSUED AT / 97-1/2. GILTS OPENED ON MONDAY MORNING WITH PRICES

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VIRTUALLY UNCHANGED FROM FRIDAY'S CLOSING, BUT EASED OFF BY 3/4 POINTS IN THE SHORTS AND 1-1/2 POINTS IN THE LONGS IN THE LATE MORNING.

THE BANK OF ENGLAND ANNOUNCED SIMULTANEOUSLY THAT THE CALL FOR 350 MILLION POUNDS IN SPECIAL DEPOSITS DUE ON NOVEMBER 15 WILL BE POSTPONED UNTIL DECEMBER 14. THE MARKET SHOULD BE LIQUID ON THE LATTER DAY AS AN OUTSTANDING GILT, THE 10-1/2 PERCENT 1976, MATURES.

THE EQUITIES MARKET CONTINUED TO ADVANCE ON FRIDAY AS THE FINANCIAL TIMES INDEX OF 30 INDUSTRIAL STOCKS INCREASED BY 7.6 POINTS TO 308.7. EARLY TRADING ON MONDAY SAW PRICES DECLINING AS THE INDEX FELL 15.1 POINTS TO 293.6 BY 11:00 A.M.

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